



MUSIC ACADEMY OF THE WEST

FINANCIAL STATEMENTS

December 31, 2014



INDEPENDENT AUDITORS' REPORT

To Board of Directors
Music Academy of the West
Santa Barbara, California

We have audited the accompanying financial statements of Music Academy of the West (a California nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

We have previously audited the Music Academy of the West's 2013 financial statements, and our report dated May 19, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Music Academy of the West as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Stoltey & Associates

May 14, 2015
Los Olivos, California

Music Academy of the West

STATEMENT OF FINANCIAL POSITION

Statement of Financial Position

December 31, 2014

(With Comparative Totals for December 31, 2013)

ASSETS

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS					
Cash and equivalents	\$ 3,454,434	\$ -	\$ -	\$ 3,454,434	\$ 2,406,230
Pledges receivable (Note 4)	-	2,047,329	-	2,047,329	1,416,696
Prepaid expenses and other current assets	151,905	-	-	151,905	141,197
Total Current Assets	3,606,339	2,047,329	-	5,653,668	3,964,123
 Property and equipment, Net (Note 6)	 30,544,408	 -	 -	 30,544,408	 30,990,829
OTHER ASSETS					
Investments (Note 5)	31,284,607	3,532,580	300,000	35,117,187	31,045,730
Pledges receivable (Note 4)	-	759,700	-	759,700	1,619,996
Bequests receivable (Note 4)	-	5,267,182	666,971	5,934,153	6,284,652
Unamortized note payable issuance costs (Note 9)	270,144	-	-	270,144	282,588
Other investment (Note 7)	427,598	-	-	427,598	427,598
Contributions in trust (Note 8)	-	4,292,059	-	4,292,059	4,213,116
Total Other Assets	31,982,349	13,851,521	966,971	46,800,841	43,873,680
 TOTAL ASSETS	 \$ 66,133,096	 \$ 15,898,850	 \$ 966,971	 \$ 82,998,917	 \$78,828,632

MUSIC ACADEMY OF THE WEST

Statement of Financial Position

December 31, 2014

(With Comparative Totals for December 31, 2013)

LIABILITIES AND NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
CURRENT LIABILITIES					
Accounts payable	\$ 135,037	\$ -	\$ -	\$ 135,037	\$ 61,661
Accrued expenses	169,908	-	-	169,908	151,101
Deposits	3,831	-	-	3,831	4,799
Deferred revenue	93,030	-	-	93,030	93,890
Current portion of long-term debt (Note 9)	<u>437,717</u>	<u>-</u>	<u>-</u>	<u>437,717</u>	<u>420,578</u>
 Total Current Liabilities	 <u>839,523</u>	 <u>-</u>	 <u>-</u>	 <u>839,523</u>	 <u>732,029</u>
 LONG-TERM LIABILITIES					
Notes payable, net of current portion (Note 9)	<u>13,815,409</u>	<u>-</u>	<u>-</u>	<u>13,815,409</u>	<u>14,255,989</u>
 Total Long-Term Liabilities	 <u>13,815,409</u>	 <u>-</u>	 <u>-</u>	 <u>13,815,409</u>	 <u>14,255,989</u>
 Total Liabilities	 <u>14,654,932</u>	 <u>-</u>	 <u>-</u>	 <u>14,654,932</u>	 <u>14,988,018</u>
 NET ASSETS (Note 10)					
Unrestricted	18,724,619	-	-	18,724,619	18,551,233
Unrestricted - board designated	32,753,545	-	-	32,753,545	31,045,729
Temporarily restricted	-	15,898,850	-	15,898,850	13,576,681
Permanently restricted	<u>-</u>	<u>-</u>	<u>966,971</u>	<u>966,971</u>	<u>666,971</u>
Total Net Assets	<u>51,478,164</u>	<u>15,898,850</u>	<u>966,971</u>	<u>68,343,985</u>	<u>63,840,614</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 66,133,096</u>	<u>\$ 15,898,850</u>	<u>\$ 966,971</u>	<u>\$ 82,998,917</u>	<u>\$ 78,828,632</u>

MUSIC ACADEMY OF THE WEST

Statement of Activities

For the Year Ended December 31, 2014

(With Comparative Totals for December 31, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>	<u>2013</u>
PUBLIC SUPPORT					
Contributions	\$ 4,838,068	\$ 1,764,089	\$ 300,000	\$ 6,902,157	\$ 5,167,627
Concert program advertising	43,900	-	-	43,900	49,500
Other support	7,905	-	-	7,905	8,972
TOTAL PUBLIC SUPPORT	<u>4,889,873</u>	<u>1,764,089</u>	<u>300,000</u>	<u>6,953,962</u>	<u>5,226,099</u>
REVENUE CENTERS					
Rack and Treasure House sales	217,589	-	-	217,589	222,577
Rack and Treasure House expenses	<u>(120,154)</u>	<u>-</u>	<u>-</u>	<u>(120,154)</u>	<u>(118,961)</u>
TOTAL REVENUE CENTERS	<u>97,435</u>	<u>-</u>	<u>-</u>	<u>97,435</u>	<u>103,616</u>
SPECIAL EVENTS					
Gross revenue	993,518	-	-	993,518	949,376
Direct costs	<u>(326,124)</u>	<u>-</u>	<u>-</u>	<u>(326,124)</u>	<u>(286,248)</u>
SPECIAL EVENTS, NET	<u>667,394</u>	<u>-</u>	<u>-</u>	<u>667,394</u>	<u>663,128</u>
REVENUE					
Concerts, recitals and master classes	749,407	-	-	749,407	720,512
Fees	247,371	-	-	247,371	242,057
Rentals and miscellaneous	149,143	-	-	149,143	140,256
Gain (loss) on sale of assets	-	-	-	-	(81,509)
Other revenue	-	-	-	-	4,873
Investment income	<u>3,761,824</u>	<u>175,833</u>	<u>-</u>	<u>3,937,657</u>	<u>4,181,648</u>
Total Revenue	<u>4,907,745</u>	<u>175,833</u>	<u>-</u>	<u>5,083,578</u>	<u>5,207,837</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>10,562,447</u>	<u>1,939,922</u>	<u>300,000</u>	<u>12,802,369</u>	<u>11,200,680</u>
Assets Released From Restriction	<u>1,454,134</u>	<u>(1,454,134)</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUNCTIONAL EXPENSES					
Program Expenses:					
Summer School and Festival	6,710,925	-	-	6,710,925	6,058,179
Supporting Services					
Management and general	674,741	-	-	674,741	740,529
Fundraising	<u>913,332</u>	<u>-</u>	<u>-</u>	<u>913,332</u>	<u>831,475</u>
Total Functional Expenses	<u>8,298,998</u>	<u>-</u>	<u>-</u>	<u>8,298,998</u>	<u>7,630,183</u>
CHANGES IN NET ASSETS	<u>\$ 3,717,583</u>	<u>\$ 485,788</u>	<u>\$ 300,000</u>	<u>\$ 4,503,371</u>	<u>\$ 3,570,497</u>

MUSIC ACADEMY OF THE WEST
STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended December 31, 2014
(With Comparative Totals for 2013)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>2014</u>	<u>2013</u>
Beginning Balance	\$ 49,596,962	\$ 13,576,681	\$ 666,971	\$ 63,840,614	\$ 60,270,117
Reclassification of Net Asset	(1,836,381)	1,836,381	-	-	-
Changes in Net Assets	<u>3,717,583</u>	<u>485,788</u>	<u>300,000</u>	<u>4,503,371</u>	<u>3,570,497</u>
Ending Balance	<u>\$ 51,478,164</u>	<u>\$ 15,898,850</u>	<u>\$ 966,971</u>	<u>\$ 68,343,985</u>	<u>\$ 63,840,614</u>

MUSIC ACADEMY OF THE WEST

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014

(with comparative Totals for 2013)

	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2014 Total</u>	<u>2013 Total</u>
Salaries	\$ 1,414,428	\$ 125,329	\$ 250,658	\$ 1,790,415	\$ 1,740,671
Pension plan contributions	46,157	4,090	8,180	58,427	56,333
Other employee benefits	184,272	16,328	32,656	233,256	237,242
Payroll taxes	113,497	10,057	20,113	143,667	136,423
Fees:					
Accounting and legal	-	30,814	-	30,814	31,473
Investment	-	40,865	-	40,865	148,320
Other	552,285	32,487	64,975	649,747	335,177
Advertising and promotion	239,036	21,180	42,361	302,577	280,606
Office expenses	66,970	5,934	11,868	84,772	86,215
Information technology	128,585	11,394	22,787	162,766	175,190
Occupancy	1,054,857	62,050	124,101	1,241,008	1,119,518
Travel	215,333	19,080	38,160	272,573	231,829
Interest	416,622	36,916	73,832	527,370	542,490
Depreciation and amortization	735,171	147,034	36,759	918,964	927,406
Insurance	53,416	4,733	9,466	67,615	64,976
Festival productions	1,490,296	106,450	177,416	1,774,162	1,516,314
Total Expenses	<u>\$ 6,710,925</u>	<u>\$ 674,741</u>	<u>\$ 913,332</u>	<u>\$ 8,298,998</u>	<u>\$ 7,630,183</u>

The accompanying notes are an integral part of these financial statements

MUSIC ACADEMY OF THE WEST

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014
(with comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,503,371	\$ 3,570,497
Adjustments to reconcile change in net assets to net cash provided in operating activities:		
Depreciation and amortization	918,964	927,406
Loss (gain) on value of securities	1,281,552	569,173
Loss (gain) on sale of securities	(3,976,293)	(4,606,410)
Loss (gain) on sale of fixed assets	-	81,509
Loss (gain) on value of charitable trusts	(78,943)	(137,691)
Noncash contribution of charitable trusts	-	-
(Increase) decrease in operating assets:		
Pledges and interest receivable	580,162	(645,272)
Prepaid expenses	1,736	27,804
Increase (decrease) in operating liabilities:		
Accounts payable	73,376	(7,961)
Accrued expenses	18,807	(7,430)
Deposits	(968)	(2,067)
Deferred revenue	(860)	(28,465)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>3,320,904</u>	<u>(258,907)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of long-term investments	(11,258,890)	(22,626,517)
Proceeds from maturity and sale of long-term investments	9,882,174	22,133,141
Payments for property and equipment	(472,543)	(104,511)
Proceeds from sale property plant and equipment	-	-
NET CASH FROM INVESTING ACTIVITIES	<u>(1,849,259)</u>	<u>(597,887)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	-	-
Defeasement payments on bonds payable	-	-
Principal payments on notes payables	(423,441)	(405,436)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(423,441)</u>	<u>(405,436)</u>
NET INCREASE (DECREASE) IN CASH	1,048,204	(1,262,230)
CASH - Beginning of year	<u>2,406,230</u>	<u>3,668,460</u>
End of year	<u>\$ 3,454,434</u>	<u>\$ 2,406,230</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 527,370</u>	<u>\$ 542,490</u>

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

Note 1 - ORGANIZATION

Founded in 1947, the Music Academy of the West (Academy) is an 8-week summer school and festival located in Santa Barbara, California. The academy provides training for exceptionally talented musicians from around the world and presents distinguished faculty and visiting artists in public master classes and performances. The festival offers more than 200 events for the community annually. At least half of the events are free and open to the public.

The academy annually provides 140 musicians (fellows) full scholarship for the summer school and festival, including tuition, room, and board. Fellows are selected from more than 1,800 worldwide applicants to study with eminent faculty and visiting guest artists. Fellows participate in one of five programs: instrumental (strings, woodwinds, brass, and percussion), solo piano, collaborative piano, vocal piano, and voice. The voice program, led by legendary mezzo-soprano Marilyn Horne, has been featured in a fully staged opera production presented in the community every year since 1997.

From 2014-2018, the Music Academy of the West is partnering with the New York Philharmonic to provide educational opportunities for academy fellows and concerts for the community. New York Philharmonic musicians will teach and perform during the summer festival, the New York Philharmonic will perform during the festival, and Academy fellows will perform in New York City with the New York Philharmonic in concert.

Music Academy of the West alumni are members of major symphony orchestras, chamber ensembles, opera companies, and university and conservatory faculties worldwide. More than 65 alumni participate in careers with the Metropolitan Opera, LA Opera, and San Francisco Opera. The New York Philharmonic, Los Angeles Philharmonic, Chicago Symphony Orchestra, and San Francisco Symphony have a total of more than 50 Academy alumni on their current rosters. Legendary and esteemed artists including Burt Bacharach, Marilyn Horne, Thomas Hampson, Donald McInnes, Paul Schenly, and David Shifrin attended the Academy and have received its highest honor, the Distinguished Alumni Award.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Academy follows the accrual method of accounting. It is the Academy's policy to recognize revenue when it is earned and to record expenses when incurred. Unconditional pledges and irrevocable bequests are recorded and recognized as revenue upon receipt of the promise or notification of the irrevocable bequest.

B. Investments

As required by generally accepted accounting principles, investments in marketable securities with readily determinable fair values and all investments in marketable debt securities are valued at their fair values as of the date of the statement of financial position. Investments that do not meet the definition of marketable securities, which include limited partnerships and hedge funds, are valued at cost. Unrealized gains and losses in marketable securities are included in the change in net assets.

C. Pledges and Irrevocable Bequests Receivable

Unconditional pledges and irrevocable bequests receivable are recorded and recognized

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

as revenue upon receipt of the pledge or notification of the irrevocable bequest. All pledges and irrevocable bequests receivable due in more than one year have been recorded at present value using a discount rate of 2.5%.

D. Property and Equipment

Land, building and equipment are recorded at cost or, if donated, at fair market value at the time of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specified purpose. Absent donor stipulations regarding how long donated assets must be maintained, the Academy reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Academy reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Academy has implemented a capitalization threshold of \$2,500.

Depreciation is computed using the straight-line method over the useful lives of the related assets. Buildings and artwork are depreciated over 50 years. Musical equipment and library texts are depreciated over twenty-five years, and the remaining assets are depreciated over five years.

E. Fair Value of Financial Instruments

The estimated fair values of the Academy's short-term financial instruments, including cash, cash equivalents, and accounts payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the marketable securities is based on quoted market rates. The fair value of investments determined by estimated net asset value is determined by the estimated value of the underlying assets held by the investment fund.

F. Donated Services

During the year ended December 31, 2014, numerous volunteers donated their time and services. The donated services were not recognized in the financial statements because they do not meet the criteria for recognition under generally accepted accounting principles.

G. Use of Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Academy reports the support as unrestricted.

H. Functional Expenses

The Academy allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. The Academy's policy is for the management and general functional expense category to be

MUSIC ACADEMY OF THE WEST

NOTES TO FINANCIAL STATEMENTS

used for expenses that can't be directly allocated to other functional expense categories.

I. Cash and Cash Equivalents

For the purpose of statement of the cash flows, the Academy considers all short-term investments with an original maturity of three months or less to be cash equivalents.

J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Income Taxes

The Academy is exempt from income taxes under Internal Revenue Code section 501(c)(3), however income tax is imposed on income from a business enterprise of a non-profit organization that is not related to its tax-exempt status. There is no tax for the year ended December 31, 2014. As a California nonprofit school, the Academy is exempt from state income taxes. Contributions to the Academy are deductible by the donors as provided by the Internal Revenue Code. The Academy is not considered a private foundation.

L. Comparative Amounts

The amounts shown for 2013 in the accompanying financial statements are included to provide a basis for comparison with 2014 and are not intended to present all information necessary for a fair presentation of the 2013 financial statements in conformity with generally accepted accounting principles.

Certain amounts in the 2013 financial statements have been reclassified to conform to 2014 financial statement presentation.

M. Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2014 was \$302,577.

Note 3 - CONCENTRATION OF RISK

Credit Risk

Financial instruments that potentially subject the Academy to concentrations of credit risk consist principally of cash equivalents, marketable securities, short-term deposits, pledges receivable and bequests receivable. The Academy places its cash equivalents and short-term deposits with two high-quality financial institutions. The Academy's donor base consists of a large number of diverse donors.

The Academy occasionally has in excess of \$250,000 on deposit with one bank. The FDIC only insures the first \$250,000 on deposit with any one bank.

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NOTES TO FINANCIAL STATEMENTS

Geographic Risk

The Academy historically has derived a large percentage of its donations from individuals, foundations and companies in Southern California, principally in Southern Santa Barbara County.

Note 4 - PLEDGES AND BEQUESTS RECEIVABLE

Pledges Receivable - Unconditional

The collection schedule of non-current pledges receivable is as follows:

Year ending December 31:	
2015	\$ 2,047,329
2016	545,000
2017	66,500
2018	16,500
2019	15,000
Thereafter	<u>190,000</u>
Total pledges receivable	2,880,329
Less allowance for uncollectible	
Pledges receivable	(9,152)
Less present value discount	<u>(64,148)</u>
Total Pledges Receivable	<u>\$ 2,807,029</u>

Bequests Receivable – Unconditional and Irrevocable

The collection schedule of non-current bequests receivable is as follows:

Year ending December 31:	
2015	\$ -
2016	-
2017	-
2018	-
2019	530,000
Thereafter	<u>6,500,000</u>
Total bequests receivable	7,030,000
Less present value discount	
	<u>(1,095,847)</u>
Total Bequests Receivable	<u>\$ 5,934,153</u>

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NOTES TO FINANCIAL STATEMENTS

Pledges Receivable – Conditional and Revocable

The Academy has been named as a beneficiary of the Estate of Sima Mannick. In accordance with the last will and testament of Mrs. Mannick, the Academy will receive annually an amount equivalent to the Academy's cost of two students' attendance. The funds to pay the tuition will be paid from the income of an endowment trust set up at the University of Southern California. The value of the pledge can be revoked and as such has not been recorded in the accompanying financial statements.

On September 1, 1990, the Ridley - Tree Foundation set up a scholarship fund of \$50,000 in the name of the Academy. The Ridley - Tree Foundation has subsequently added an additional \$275,000 to the original contribution amount. The earnings of the fund are paid to the Academy semiannually. Due to the revocable nature of the arrangement the principal amount held by Paine Webber has not been recorded as an asset of the Academy, nor has the principal been recorded as a contribution to the Academy.

Note 5 - INVESTMENTS

Investments Reported at Fair Value

Investments considered to be marketable securities are presented in the financial statements at estimated fair market value derived from estimated net asset value per share.

At December 31, 2014 marketable securities consisted of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Excess of Market over Cost</u>
Common stock - domestic	\$ 6	\$ 15	\$ 9
Mutual funds – balanced	20,293,143	18,328,989	(1,964,154)
Funds - other	<u>15,804,367</u>	<u>16,622,812</u>	<u>818,445</u>
Total	<u>\$ 36,097,516</u>	<u>\$ 34,951,816</u>	<u>\$ (1,145,700)</u>

Investments Reported at Cost

Alternative investments include non-marketable securities which consist primarily of limited partnerships and hedge funds. The Academy has reported these investments at cost which totaled \$165,371 at December 31, 2014. Management believes there has been no permanent impairment to value. Management has estimated the fair market value of these investments at December 31, 2014 to be \$155,712. Management's estimate is based on the reported values provided by the fund managers.

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NOTES TO FINANCIAL STATEMENTS

Investment Income

Investment income is summarized as follows:

Interest and dividend income	\$ 1,242,916
Realized gain on securities	3,976,293
Unrealized loss on securities	<u>(1,281,552)</u>
Total	<u>\$ 3,937,657</u>

The Academy Board of Directors elected to make a transition to a new investment manager in the year ended December 31, 2014. This action resulted in a partial redemption of the Academy's total hedge funds, and yielded a significant realized gain on securities due to the redeemed hedge funds book value being reported at the historical cost basis. The Academy's investment manager transition and associated assets transfer, is scheduled to be complete in the year ended December 31, 2015.

Note 6 - PROPERTY AND EQUIPMENT

A summary of land, building and equipment as of December 31, 2014, is as follows:

Land and improvements	\$ 230,245
Buildings	33,991,876
Furniture, fixtures and equipment	820,136
Construction in process	383,613
Library text and music	18,612
Instruments	1,685,539
Vehicles	<u>43,153</u>
	37,173,174
Less accumulated depreciation	<u>(6,628,766)</u>
Net Property and Equipment	<u>\$ 30,544,408</u>

Depreciation expense for the year ended December 31, 2014 totaled \$918,964. Construction in process consists of costs associated with the renovation of the "Main House" located on the Academy's campus. Construction in process is not subject to depreciation until placed into service.

Note 7 - OTHER INVESTMENT

The Academy is the beneficiary of a second trust deed, of \$427,598, secured by real property located in Santa Barbara, California. As stated in the second trust deed, there is no interest charged on the principal and the Academy will share in the appreciation of the real property upon sale in the future.

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NOTES TO FINANCIAL STATEMENTS

Note 8 - CONTRIBUTIONS IN TRUST

During the year ended September 30, 1991, a pooled income trust fund was established. The present value of the trust as of the date of the contribution was \$4,444. At December 31, 2014, the fair market value of the Academy's share of trust assets was \$14,186. These assets are recorded as temporarily restricted assets.

During the year ended December 31, 2005, the Academy was named as a 20% beneficiary of the Maximus Fund to be held by the Santa Barbara Foundation. The Academy is to receive an annual payment equal to 5% of the fund's fair market value as determined on January 1 of each year. The estimated fair market value of the gift has been determined to equal the underlying assets at the time of the gift. The Academy has recorded the gift as an increase to temporarily restricted net assets. The Academy's share of the net assets of the fund at December 31, 2014 was \$2,730,653.

During the year ended December 31, 2012, the Academy was named as a 20% beneficiary of the Thomas E & Elenor H. Hugunin Endowment Fund to be held by the Santa Barbara Foundation. The Academy is to receive an annual payment equal to 5% of the fund's fair market value as determined on January 1 of each year. The estimated fair market value of the gift has been determined to equal the underlying assets at the time of the gift. The Academy has recorded the gift as an increase to temporarily restricted net assets. The Academy's share of the net assets of the fund at December 31, 2014 was \$1,547,220.

For the year ended December 31, 2014, the Academy reported a change in contributions in trust of \$78,943 as part of contributions.

Note 9 - NOTE PAYABLE

In September 2012, the Academy entered into a note payable agreement with First Republic Bank. Under the agreement the Academy borrowed \$15,200,000. The note payable bears interest at 3.65% per annum, is to be repaid with monthly principal and interest payments of \$79,221 and matures in September 2036. In connection with the note payable, the Academy incurred \$298,661 of issuance costs which are being amortized over the life of the note. At December 31, 2014 the Academy reported unamortized loan issuance costs of \$270,144. The proceeds of the note were used to retire \$14,884,925 of certificates of participation. The note payable is secured by a lien on all of the Academy's assets other than its real property and permanently restricted assets. The note requires the Academy to maintain liquidity of \$14,000,000.

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Minimum maturities of the note payable are as follows:

2015	\$ 437,717
2016	452,551
2017	470,761
2018	488,234
2019	506,355
Thereafter	<u>11,897,508</u>
	<u>\$ 14,253,126</u>

Note 10 - DESIGNATIONS AND RESTRICTIONS OF NET ASSETS

Board Designated Funds

Board designated funds include amounts placed into the Academy's endowment fund for the following purposes:

Loan repayment	\$ 5,451,807
Future operations	<u>27,301,738</u>
	<u>\$ 32,753,545</u>

Temporarily Restricted Funds

Temporarily restricted net assets represent donor restrictions for which the restriction has not been met at December 31, 2014. Temporary restricted net assets as of December 31, 2014 consist of the following:

Campus renovation plan	\$ 1,700,101
Artistic Initiative fund	1,430,557
Building maintenance	2,010,110
Various program activities	531,870
Time restricted	<u>10,226,212</u>
	<u>\$ 15,898,850</u>

Permanently Restricted Funds

Permanently restricted net assets consist of bequests receivable and contributions to be held indefinitely of which the income is restricted for the purpose of scholarships.

Note 11 – ASSETS VALUED AT FAIR VALUE

Fair value for mutual funds other is measured using the net asset value per share held at December 31, 2014.

Fair value for the contribution receivable from the beneficial interest in perpetual trusts is measured using the fair value of the assets held in the trust as reported by the trustee as of December 31, 2014. The Academy considers the measurement of its beneficial interest in the trusts to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the trust assets reported by the trustee, the Academy will never receive those assets or have the ability to

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direct the trustee to redeem them.

The Academy recognizes transfers in between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between the levels in the fair value hierarchy during the year ended December 31, 2014.

Fair Value Measurements at December 31, 2014 are summarized as follows:

	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Recurring fair value measurements:</i>			
Equity securities:			
Domestic common stock	\$ 15	\$ -	\$ -
Mutual funds:			
Balanced income	18,328,989	-	-
Other funds	-	<u>16,622,812</u>	-
Total investments	18,328,989	16,622,812	-
Beneficial Interest in perpetual trust	-	-	<u>4,292,059</u>
Total	<u>\$ 18,328,989</u>	<u>\$ 16,622,812</u>	<u>\$ 4,292,059</u>

The table below presents information about fair value measurements that use significant unobservable inputs (level 3):

Beneficial interest in perpetual trust

Balance at December 31, 2013	\$ 4,213,116
Additional beneficial interest received	-
Total Gains(Losses) Included In Changes in Net Assets	78,943
Balance at December 31, 2014	<u>\$ 4,292,059</u>

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NOTES TO FINANCIAL STATEMENTS

Note 12 - ENDOWMENT

The Academy's endowment has been established for general operating purposes, building maintenance and loan repayment. Its endowment consists exclusively of board designated endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Academy has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Academy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Academy and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Academy
- (7) The investment policies of the Academy.

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Endowment net asset composition by type of fund as of December 31, 2014:

Unrestricted (Designated)	Temporarily Restricted	Permanently Restricted	Total
<u>\$ 32,753,545</u>	<u>\$ 2,072,611</u>	<u>\$ 300,000</u>	<u>\$35,126,156</u>

Changes in endowment net assets for the fiscal year ended December 31, 2014 are as follows:

	Unrestricted (Designated)	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 31,045,729	\$ -	\$ -	\$ 31,045,729
Reclassification	(1,836,381)	1,836,381	-	-
Contributions	1,211,487	67,500	300,000	1,578,987
Investment Income	3,758,548	175,833	-	3,934,381
Expenditures:				
Loan Repayment	(187,215)	-	-	(187,215)
Programs	(1,198,362)	(6,500)	-	(1,204,862)
Investment Expenses	<u>(40,261)</u>	<u>(603)</u>	<u>-</u>	<u>(40,864)</u>
Endowment net assets, ending of year	<u>\$ 32,753,545</u>	<u>\$ 2,072,611</u>	<u>\$ 300,000</u>	<u>\$ 35,126,156</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Academy to retain as a fund of perpetual duration. No such deficiencies existed at December 31, 2014.

Return Objectives and Risk Parameters

The Academy has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Academy must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Academy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Academy targets a diversified asset allocation that places a greater emphasis on alternative investments and equity mutual funds investments to achieve its long-term return objectives within prudent risk constraints.

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Spending Policy

The Academy has adopted a spending policy which allows expenditures equal to 4.75% of the five year endowment average balance.

Note 13 - PENSION PLAN

In 2001, the Academy adopted The Music Academy of the West Tax-Deferred Annuity Plan under section 403(b) of the Internal Revenue Code. Eligible employees are at minimum twenty-one years of age, have completed one year of service, and work full time. The Academy matches employee contributions 100% for the first 5% of deferred salary. Pension plan contributions and operating expenses for the year ended December 31, 2014 was \$61,132.

Note 14 - COMMITMENTS

Operating Leases

The Academy leases a private residence located in Santa Barbara, Californian in which the Academy's President and CEO is required to reside under his employment contract. The lease expires June 30, 2015 and requires monthly payments of \$3,500. The Academy considers the lease to be an operating lease.

Contracts

On March 26, 2014, the Academy entered into a contract with the New York Philharmonic (Philharmonic) for years 2014 to 2017 where the Philharmonic has agreed to perform up to two concerts as the Academy's guest orchestra in 2015 and 2017. In addition, the Philharmonic will offer a guest conductor for the Academy's festival and provide the opportunity for 10 Academy fellows to train with the Philharmonic in New York City.

For the years 2015, 2016 and 2017, the contract obligates the Academy to pay the Philharmonic a residency and expense fee according the following schedule:

2015	\$700,000
2016	\$190,000
2017	\$725,000

The Academy has begun the development phase for the renovation of the "Main House" and the "New Practice Studio." Construction for the Main House is scheduled to begin in August of 2015 and the New Practice Studio in August of 2016. For these two projects, the Academy has entered in various architectural and consulting contracts totaling approximately \$1,792,000.

The construction contracts are expected to be signed in 2015 for the Main House and in 2016 for the New Practice Studio, pending fundraising results of the Academy's capital campaign.

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Line of Credit

The Academy has available a bank line of credit for any amount up to \$1,500,000 at December 31, 2014. The line of credit is secured by a lien on all of the Academy's assets other than its real property and permanently restricted assets. Draws on the line of credit bear interest at 3.25%. The Academy did not draw on the line during the year ended December 31, 2014. The line of credit expires March 31, 2015. The Academy plans to renew the line of credit upon expiration.

Note 15 - SUBSEQUENT EVENTS

Management has evaluated events through May 14, 2015, which is the date the financial statements were available to be issued. Management has determined that no subsequent event requiring disclosure or significantly impacting disclosure has occurred.